Historic article –illustration purposes only.

The Guernsey Protected Cell Company ('PCC')

SUMMARY

The Guernsey protected cell company ('PCC') has become a key structure for wealth management and planning in recent years. However, its increasing importance has been brought into even sharper focus following the pre-budget report on changes to the rules surrounding the taxation of individuals who are UK resident non-UK domiciled.

Joe Smith, Managing Director of ABC Wealth, Guernsey, provides an overview of the structure of the PCC, outlines the key features and benefits it offers and highlights why it has become such an important structure following the pre-budget report.

The Guernsey protected cell company ('PCC') is now a well-known structure that has proved successful in a variety of roles and commercial planning situations. Introduced in 1997, the Guernsey PCC was initially the preserve of the captive insurance, hedge fund and securitisation industries however, in 2005 the rules surrounding and restricting their use were relaxed, thereby making them available for use in a range of private client wealth management structures.

What is a PCC?

The strength of the PCC as a tool in wealth planning lies in its unique structure. It is a single, legal, corporate entity consisting of a 'Core' vehicle that has the power to create individual cells. Each of these cells can hold an asset or assets on an entirely segregated basis, issue shares and enter into contracts and agreements in its own right.

One of the principal attractions of the PCC is in this segregation or 'ring-fencing' of assets. The PCC legislation expressly provides that the assets of any one particular cell are only available to the shareholders and creditors of that cell – creditors of another cell having no recourse against them. Furthermore, the assets of the core are also immune from attack, unless the creditor has previously put in place a recourse agreement.

The immediate attraction of such a cellular corporate structure to the captive insurance, hedge fund and securitisation industries will be obvious. A straightforward example being an umbrella fund where the risk of cross-losses or cross-contamination across share classes can be managed by segregating assets within different cells and even, perhaps, appointing a different manager to each.

The PCC and private client wealth management – some key features and benefits

In 2005 the relaxation of the rules surrounding the use of Guernsey PCC's meant that the key benefits became available to private clients and their wealth managers who, working in association with Guernsey financial service providers, were able to start using them in the structuring of the financial affairs of their clients.

Typically, the 'Core' vehicle is established and managed by a registered Guernsey agent – for example ABC Wealth Management. They will provide the managers, directors and administrators to the PCC. The Core is then able to create one or more cells that are then made available to clients. This saves client time and the cost of establishing the PCC themselves. Clients may purchase one or more cells depending on their assets, personal wealth and business affairs.

The PCC - flexibility and range of investments that can be held

An individual client or a family may decide to purchase their own cell and within that cell there is complete flexibility in terms of the investment parameters and the ability to realise the assets at any time.

The range of investments that can be held within a cell is broad and includes equities, commercial and residential property, alternative investments such as hedge funds, interests in partnerships and intellectual property.

An extensive example would be a wealthy individual who decides to segregate a portfolio of properties into one cell, yacht and private jet into a second cell and investment portfolios into a third. The reasons for doing this may be for tax planning, to segregate wasting assets from capital growth assets, or to separate assets that may attract a liability from those that will retain or grow in value. Cells may even be used to segregate assets between family members.

It is worth reiterating that a single PCC may be used by many different clients and that each client may have any number of cells and that the assets of one client are safe from attack or cross-contamination by the actions or investments in any other cell.

PCC's and the Pre-Budget Report

Given the demonstrable power and flexibility of the Guernsey PCC as a wealth management tool, it is not surprising that some of the features of the PCC may offer planning opportunities to UK resident taxpayers and UK resident non-UK domiciled individuals.

Opportunities deleted because out of date.

Summary

The Guernsey PCC is an extremely flexible and powerful tool for the management and preservation of wealth. With the unique cellular corporate structure, the statutory protection of the asseta of one cell from the creditors of another cell, the opportunities it currently offers to UK resident tax-payers and the ease of use and establishment, it will remain an important planning structure for the foreseeable future.

Potential quotes if needed for the article –

'The Guernsey PCC has become a cutting edge wealth management tool.'

'The variety and planning opportunities available through the Guernsey PCC are attributable to the flexibility they offer.'

'The forward-thinking of Guernsey's financial authorities has allowed Guernsey to lead the way with the PCC concept.'

'UK resident tax payers, including the non-domiciled community, will be taking a close look at what the Guernsey PCC has to offer.'

'The user friendly Channel Island Stock Exchange greatly facilitates the establishment and use of the PCC.'

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